

Bank of Communications (3328 HK / 601328 CH)

Mild improvement in NIM and risk buffer

- NIM pressure to persist on pricing factors, optimization of balance sheet mix could help to partial offset
- Takes time to revive net fee income growth momentum, expect soft topline growth in FY24E/25E
- Gradual improvement in risk buffer and benign asset quality outlook in FY24E
- Maintain **BUY**. Our GGM-based H/A-shr TPs imply 0.41x/0.54x target 24E P/B

NIM supported by balance sheet optimization. Despite BoCom's 1Q24 NIM was down 6bps YoY at 1.27%, we are glad to see a better-than-expected QoQ rebound by 5bps in 1Q24. Such expansion was supported by faster loan growth (3.08% QoQ) than deposit growth (1.50% QoQ) as of Mar 2024. However, given a total asset growth at 1.26% QoQ, faster loan growth was mainly supported by a shift from lower-yield asset class. Specifically, its cash and balances in central banks dropped 15.2% QoQ as of Mar 2024. Despite the better NIM in 1Q24, which fueled a positive NII growth at 2.24% YoY in 1Q24, we have reservations about the sustainability of such improvements in the following quarters. In our view, room from continuous balance sheet optimization may not be able to fully offset NIM pressure from loan and deposit pricing. We maintain our NIM forecast at 1.12%/1.03% for FY24E/25E, representing 16bps/9bps decline YoY. Our assumptions factored in a revival of NIM pressure in 2Q-4Q24E, or with 1Q24 NII accounted for 25.9% (1Q23: 24.8%) of full year NII.

Net fee income remains a challenge. BoCom's net fee income growth will remain under pressure in 1H24 due to the sector-wide fee rate adjustment in 3Q23. In 1Q24, BoCom's net fee income dropped YoY by 6.35% and accounted for 28.0% (1Q23: 29.5%) of our full year number. With the impact likely be fully reflected in 1H24, and mild recovery in capital market performance and retail consumption demand, we project better net fee income outlook in 2H24. Overall, we project topline CAGR at 1.8% over FY23-25E.

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Results and Valuation

FY ended Dec 31	2021A	2022A	2023A	2024E	2025E
Revenue (RMB mn)	269,748	257,346	258,014	260,245	267,301
Chg (% YoY)	9.3	(4.6)	0.3	0.9	2.7
Net profit* (RMB mn)	87,581	92,102	92,728	95,867	99,566
Chg (% YoY)	11.9	5.2	0.7	3.4	3.9
EPS (RMB)	1.10	1.14	1.15	1.19	1.24
Chg (% YoY)	10.9	3.2	0.8	3.7	4.2
BVPS (RMB)	10.64	11.41	12.30	13.07	13.88
Chg (% YoY)	7.7	7.3	7.8	6.3	6.1
P/E (x) – H-shr	4.68	4.53	4.50	4.34	4.17
P/B (x) – H-shr	0.49	0.45	0.42	0.40	0.37
P/E (x) – A-shr	6.16	5.97	5.92	5.71	5.48
P/B (x) – A-shr	0.64	0.60	0.55	0.52	0.49
ROAA (%)	0.80	0.75	0.69	0.66	0.63
ROAE (%)	10.76	10.34	9.68	9.38	9.27
DPS(RMB)	0.354	0.373	0.375	0.387	0.403
Yield (%) H-shr	6.85	7.22	7.26	7.49	7.80
Yield (%) A-shr	5.21	5.49	5.51	5.69	5.93

Note: HKD/CNY=1.08

*Net profit refers to Net profit attributable to equity holders of the Company in this report unless otherwise stated

Source(s): Company, Bloomberg, ABCI Securities estimates

Company Report

Apr 30, 2024

Rating (H): BUY
Rating (A): BUY
TP (H): HK\$ 5.82
TP (A): RMB 7.12

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Price (H/A shr)	HK\$ 5.58/ RMB 6.80
Est. s price return (H/A shr)	4.30%/ 4.70%
Est. dividend yield (H/A shr)	7.49%/5.69%
Est. total return (H/A shr)	11.79%/ 10.39%
Last Rating &TP (H/A shr)	BUY, HK\$5.82/ BUY, RMB7.12
Previous Report Date	9 Apr, 2024

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L (HK\$) (H shr)	5.65/4.23
52Wk H/L (RMB) (A shr)	7.04/5.42
Total issued shares (mn)	74,262.8
Issued H shr (mn)	35,011.9
Issued A shr (mn)	39,250.9
Market cap (HK\$ mn)	483,625.0
H-shr market cap (HK\$ mn)	195,366.4
A-shr market cap (HK\$ mn)	288,258.6
3-mth avg daily turnover (HK\$ mn) (H shr)	108.6
3-mth avg daily turnover (RMB mn) (A shr)	834.7

Major shareholder(s) (%):

HSBC	19.03
MoF	23.88

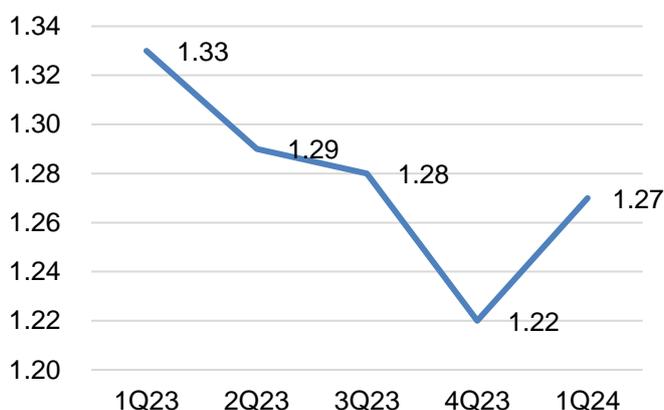
Source(s): Bloomberg, ABCI Securities

Exhibit 1: Key financial performance in 1Q24

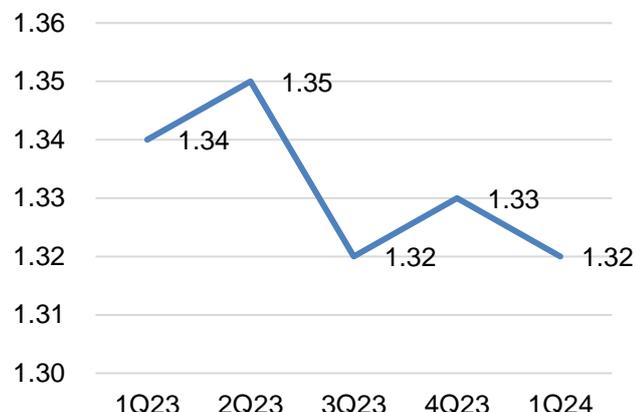
(RMB mn)	1Q23	1Q24	change (%)
Net interest income	40,648	41,558	2.24
Net fee and commission	12,685	11,879	(6.35)
Operating income	67,169	67,201	0.05
Operating expenses	(25,297)	(25,254)	(0.17)
Impairment losses	(15,470)	(14,598)	(5.64)
Profit before tax	26,402	27,349	3.59
Net profit attributable to equity holders	24,633	24,988	1.44
Key indicators (%)	1Q23	1Q24	change (ppt)
Net interest margin	1.33	1.27	(0.06)
ROAA	0.75	0.71	(0.04)
ROAE	11.47	10.79	(0.68)
	Dec-23	Mar-24	
CT1 CAR	10.23	10.44	0.21
Total CAR	15.27	16.09	0.82
NPL ratio	1.33	1.32	(0.01)
Provision to total loans	2.59	2.60	0.01
Provision coverage ratio	195.21	197.05	1.84

Source(s): Company, ABCI Securities

Mild improvement in risk buffer. In line with our previous expectation, BoCom strives to strengthen its risk buffer in 1Q24. Provisioning ratio and provision coverage increased mildly by 1bps and 1.84ppt QoQ to 2.60% and 197.05% as of Mar 2024; we project the figures to increase to 2.62% and 200.00% by end-FY24E. NPL ratio was down by 1bps QoQ to 1.32% in 1Q24, approaching our target of 1.31% by end-FY24E. We believe new NPLs in 1Q24 were mainly attributed to retail credit card balances; meanwhile, corporate NPL ratio was on a down trend in 1Q24 with persisting NPL handling. We stay confident that BoCom could sustain a benign asset quality outlook for the rest of FY24E.

Exhibit 2: BoCom's quarterly NIM trend (%)


Note: 2Q-4Q NIM based on ABCI calculation
Source(s): Company, ABCI Securities estimates

Exhibit 3: BoCom's quarterly NPL ratio trend (%)


Source(s): Company, ABCI Securities

Maintain BUY on improving NIM and risk buffer. Without adjusting our earnings forecast, our H/A TPs at HK\$ 5.82/ RMB 7.12, implying 0.41x/0.54x FY24E target P/B. Our base case expects BoCom's earnings outlook to gradually improve along with a stronger risk buffer. Maintain **BUY**.

Risk Factors: 1) NIM pressure to prolong further; 2) Net fee income recovers more slowly than expected; 3) Asset quality deterioration in specific sectors and geographical regions; 4) Potential dilution effect from issuance of additional capital instruments; 5) Potential dilution from conversion of outstanding convertible preference shares; 6) Declining ROAA and ROAE trends.



Financial statements

Consolidated income statement

FY Ended Dec 31 (RMB mn)	2021A	2022A	2023A	2024E	2025E
Net interest income	161,693	169,882	164,123	160,497	160,740
Non-interest income	108,055	87,464	93,891	99,748	106,560
Of which: Fees and commissions	47,573	44,855	43,004	42,359	42,571
Operating income	269,748	257,346	258,014	260,245	267,301
Operating expenses	(107,098)	(96,923)	(100,346)	(103,858)	(108,012)
Pre-provision operating profit	162,650	160,423	157,668	156,387	159,288
Impairment losses on loans	(68,691)	(62,308)	(57,970)	(54,332)	(53,262)
Profit before tax	93,959	98,115	99,698	102,055	106,026
Tax	(5,020)	(6,160)	(6,446)	(6,634)	(6,839)
Minorities interests	(1,358)	147	(524)	445	379
Net profit attributable to equity holders	87,581	92,102	92,728	95,867	99,566
Dividend to other capital instrument holders and interest paid to perpetual bonds	(5,613)	(7,483)	(7,473)	(7,473)	(7,473)
Net profit attributable to ordinary shareholders	81,968	84,619	85,255	88,394	92,093
Growth (%)					
Net interest income	5.5	5.1	(3.4)	(2.2)	0.2
Non-interest income	15.7	(19.1)	7.3	6.2	6.8
Of which: Fees and commissions	5.5	(5.7)	(4.1)	(1.5)	0.5
Operating income	9.3	(4.6)	0.3	0.9	2.7
Operating expenses	9.6	(9.5)	3.5	3.5	4.0
Pre-provision operating profit	9.2	(1.4)	(1.7)	(0.8)	1.9
Impairment losses on loans	9.8	(9.3)	(7.0)	(6.3)	(2.0)
Profit before tax	8.7	4.4	1.6	2.4	3.9
Tax	(26.8)	22.7	4.6	2.9	3.1
Minorities & other dilutions	4.8	(110.8)	(456.5)	(185.0)	(15.0)
Net profit attributable to equity holders	11.9	5.2	0.7	3.4	3.9
Dividend to other capital instrument holders and interest paid to perpetual bonds	27.7	33.3	(0.1)	0.0	0.0
Net profit attributable to ordinary shareholders	10.9	3.2	0.8	3.7	4.2
Per share (RMB)					
EPS	1.10	1.14	1.15	1.19	1.24
BVPS	10.64	11.41	12.30	13.07	13.88
DPS	0.354	0.373	0.375	0.387	0.403
Key ratio (%)					
Net interest margin	1.56	1.48	1.28	1.12	1.03
Cost to income ratio	27.67	29.65	30.04	27.91	28.41
Return on average assets	0.80	0.75	0.69	0.66	0.63
Return on average equity	10.76	10.34	9.68	9.38	9.27
Effective tax rate	5.34	6.28	6.47	6.50	6.45
Dividend payout	32.07	32.73	32.67	32.50	32.50

Note 1: Individual items may not sum to total due to rounding difference

Note 2: Key ratios and figures may not match with financial reports due to adjustment and reclassification for comparison consistency among individual equities

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet

As of Dec 31 (RMB mn)	2021A	2022A	2023A	2024E	2025E
Cash & balance with central banks	734,728	806,102	898,022	978,844	1,057,151
Due from FIs	632,708	690,421	859,642	1,048,763	1,258,516
Investment securities	3,523,249	3,955,207	4,104,142	4,309,349	4,524,817
Net loans and advances	6,412,201	7,135,454	7,772,060	8,331,461	8,931,202
Total interest-earning assets	11,302,886	12,587,184	13,633,866	14,668,417	15,771,686
Property and equipment	171,194	194,169	217,751	243,881	273,147
Other non-interest-earning assets	191,677	210,218	208,855	226,037	244,684
Total assets	11,665,757	12,991,571	14,060,472	15,138,335	16,289,517
Customer deposits	7,039,777	7,949,072	8,551,215	9,150,252	9,773,635
Due to FIs	1,947,768	2,034,894	2,424,537	2,788,218	3,150,686
Subordinated debt and others	1,481,667	1,717,980	1,727,168	1,830,798	1,922,338
Total interest-bearing liabilities	10,469,212	11,701,946	12,702,920	13,769,268	14,846,659
Current taxes	4,725	3,937	4,538	5,128	5,743
Deferred tax liabilities	1,889	1,786	2,407	2,888	3,379
Other liabilities	212,695	250,380	251,157	204,221	217,342
Total liabilities	10,688,521	11,958,049	12,961,022	13,981,506	15,073,124
Share capital	74,263	74,263	74,263	74,263	74,263
Other capital instruments	174,790	174,790	174,790	174,790	174,790
Reserves	715,594	772,971	838,977	896,471	956,147
Minorities	12,589	11,498	11,420	11,306	11,193
Shareholder's equity	977,236	1,033,522	1,099,450	1,156,830	1,216,393
Growth (%)					
Cash & balance with central banks	(10.1)	9.7	11.4	9.0	8.0
Due from FIs	10.8	9.1	24.5	22.0	20.0
Investment securities	8.8	12.3	3.8	5.0	5.0
Net loans and advances	12.1	11.3	8.9	7.2	7.2
Total interest-earning assets	9.2	11.4	8.3	7.6	7.5
Property and equipment	1.0	13.4	12.1	12.0	12.0
Other non-interest-earning assets	5.6	9.7	(0.6)	8.2	8.2
Total assets	9.1	11.4	8.2	7.7	7.6
Customer deposits	6.5	12.9	7.6	7.0	6.8
Due to FIs	9.0	4.5	19.1	15.0	13.0
Subordinated debt and others	13.8	15.9	0.5	6.0	5.0
Total interest-bearing liabilities	8.0	11.8	8.6	8.4	7.8
Current taxes	24.8	(16.7)	15.3	13.0	12.0
Deferred tax liabilities	46.9	(5.5)	34.8	20.0	17.0
Other liabilities	82.4	17.7	0.3	(18.7)	6.4
Total liabilities	8.9	11.9	8.4	7.9	7.8
Share capital	0.0	0.0	0.0	0.0	0.0
Other capital instruments	31.1	0.0	0.0	0.0	0.0
Reserves	8.6	8.0	8.5	6.9	6.7
Minorities	4.7	(8.7)	(0.7)	(1.0)	(1.0)
Shareholder's equity	11.2	5.8	6.4	5.2	5.1
Key ratio (%)					
CT1 CAR	10.62	10.06	10.23	10.07	9.84
Total CAR	15.45	14.97	15.27	15.08	14.84
NPL ratio	1.48	1.35	1.33	1.31	1.30
Provision to total loans	2.46	2.44	2.59	2.62	2.65
Provision coverage ratio	166.50	180.68	195.21	200.00	203.85

Note 1: Individual items may not sum to total due to rounding difference

Note 2: Key ratios and figures may not match with financial reports due to adjustment and reclassification for comparison consistency among individual equities

Source(s): Company, ABCI Securities estimates

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Rating	Definition
Buy	Stock return rate \geq Market return rate ($\sim 7\%$)
Hold	- Market return rate ($\sim 7\%$) \leq Stock return rate $<$ Market return rate ($\sim 7\%$)
Sell	Stock return $<$ - Market return ($\sim 7\%$)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months
Market return rate: average market return rate since 2005 (For reference: HSI total return index 2005-2023) averaged at 7.4%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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